Economy Of The Province

November 13, 1990

Saskatchewan
Finance

The Hon. Lorne H. Hepworth
Minister of Finance

INTRODUCTION

Saskatchewan people and their economy are currently confronted with a difficult economic environment. In response to the new economic realities, Saskatchewan families, businesses and farmers have had to make tough choices. The Government has also been confronted with the challenge of managing in these difficult times.

In addition to sound financial management, and while protecting the priority areas of health care, education and agriculture, the Government has put in place a strategy to diversify Saskatchewan's economy and to build for the future.

In order to provide a better understanding of the choices that must be made, this paper outlines for the people of Saskatchewan the recent developments influencing their economy and identifies key economic challenges.

RECENT DEVELOPMENTS

The March 1990 Budget and the August 1990 Economic and Financial Position Report discussed the burdens that low commodity prices for Saskatchewan's major exports, high interest rates and a high Canadian dollar have placed on the people of the Province, their economy, and their Government's financial position. The situation has been made even more difficult by the federal government shifting the burden of its deficit to the provinces, by shifting the costs of services onto the provinces and by cutting transfer payments.

A number of recent events have significant implications for Saskatchewan.

- The Middle East crisis, precipitated by the Iraqi invasion of Kuwait, caused oil prices and, in turn, fuel prices to skyrocket. This crisis has also led to considerable volatility in commodity and financial markets through fear of military conflict, oil supply disruption and increased inflationary pressures.

- This year, Saskatchewan farmers produced their second largest crop ever. However, the combination of high operating costs and severely depressed prices due to the European and U.S. agricultural trade subsidy war means that, while farmers have produced more, they will earn less.

- The current round of the GATT (General Agreement on Tariffs and Trade) negotiations, nearing its deadline, is of critical importance if world trade wars, particularly those which have battered Saskatchewan's agricultural sector, are to be ended.

- The Bank of Canada has maintained its policy of high interest rates. Interest rates continue to be at unacceptable levels and are sustaining the artificially high level of the Canadian dollar. The combination of high interest rates and a high Canadian dollar has been damaging to Saskatchewan's economy and has now resulted in the national economy sliding into a recession.

- There are signs that the United States, Canada's and Saskatchewan's single most important export market, is also entering a recession. If this occurs, it will make the recession in Canada more severe and more prolonged.

These recent developments indicate that Saskatchewan people must confront an uncertain and difficult economy in the near term. Real growth in Saskatchewan's economy is expected by a number of forecasters to be in the five per cent range in 1990. As indicated in the recent Conference Board of Canada forecast for Saskatchewan, a return to a normal crop in 1991 would imply that real growth in the economy would be lower next year compared to this year.

CONFERENCE BOARD FORECAST FOR SASKATCHEWAN
(November 1990)

Economic Indicator	1990	1991	1992
Real Economic Growth	5.2%	0.0%	2.4%
Inflation	4.1%	5.8%	4.1%
Employment (000s)	450.0	451.0	458.0
Unemployment Rate	7.0%	7.7%	7.3%
Personal Income Growth	3.4%	5.0%	6.8%
Growth of Retail Sales	0.6%	2.6%	6.1%
Housing Starts (000s)	1.5	1.6	1.8

The "Real Economic Growth Indicator" for 1990 reflects primarily the second largest grain crop ever harvested by the Province's farmers. 1990 production of major grains, oilseeds and speciality crops is estimated at about 25 million tonnes, up 33 per cent from 1989 and 28 per cent over the 1980-89 average production level. However, the benefits of higher crop production for the farm sector and the economy overall can be expected to be offset by low grain prices and the barriers to selling in world markets.

In the near term, potash and uranium producers must also cope with low prices and difficult world markets. On the other hand, the recent run-up in oil prices is improving the cash-flow of the oil sector. Also, the number of oil wells drilled in Saskatchewan to October 27, 1990 is 486, up 80 per cent from the same period in 1989. Nevertheless, the uncertainty and volatility arising out of the Middle East crisis will make oil companies cautious about committing additional funds for drilling and development activity. At the same time, natural gas production is expected to increase in 1990 and beyond as more of the Province's requirements are met with Saskatchewan production and as exports rise.

In addition to the oil and gas sector, major projects underway, such as the Bi-Provincial upgrader at Lloydminster, the Saferco fertilizer plant at Belle Plaine, the Shand power project near Estevan and the Millar Western pulp mill at Meadow Lake, are providing a boost to employment and economic growth.

A growing manufacturing sector in Saskatchewan has also helped to generate jobs and economic activity. However, high interest rates, a high Canadian dollar, increased fuel costs and the slow-down in economic growth in Canada and the United States are hurting many of the Province's manufacturers.

Rising fuel costs and the imposition of the federal government's Goods and Services Tax (GST) will increase inflationary pressures in the coming months. The GST, which is scheduled to be introduced on January 1, 1991, is expected to cause a rise in consumer price inflation of more than one percentage point. Higher consumer prices will lower real incomes and will be particularly painful for many in the Province whose incomes are falling, such as farmers and those whose livelihood is dependent on the agricultural sector.

In 1989, Saskatchewan's unemployment rate of 7.4 per cent was the third lowest among the provinces and below the national rate of 7.5 per cent. The Province's seasonally adjusted unemployment rate for October, 1990 was 6.6 per cent compared to the Canadian rate of 8.8 per cent. Slower economic growth in Canada and Saskatchewan, anticipated for 1990, will put pressure on employment prospects in the near term.

For today and through the 1990s events occurring beyond Saskatchewan's borders are creating important challenges to be addressed. Key economic challenges for Saskatchewan include the continued viability of agriculture and economic diversification.

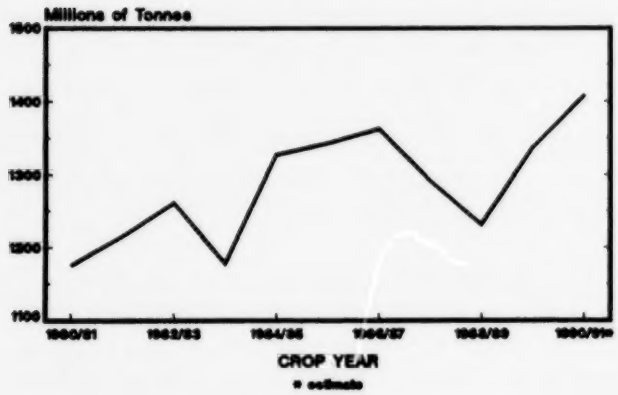
KEY CHALLENGES

Agriculture

Saskatchewan farmers are faced with a crisis. Wheat prices, adjusted for inflation, are forecast for 1990 to be less than $2.00 per bushel which is a 60 year low. This has been caused by increased world production and the effects of the agricultural trade subsidy wars.

WHEAT PRICE
(Adjusted for Inflation)

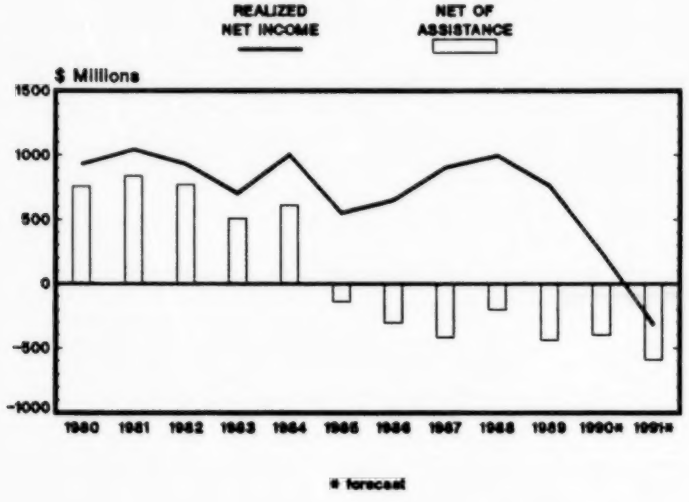
WORLD WHEAT PRODUCTION



Saskatchewan farm income after expenses (Realized Net Farm Income) is forecast to be $244 million for 1990, approximately $4,000 per farmer. Farmers are earning one-third of what they did in 1989, and only one-quarter of what they earned in 1988. The outlook, with current government safety net program levels, is for Realized Net Farm Income to be in the order of negative $300 million for 1991. This means that farm expenses will exceed farm income by about $5,000 per farmer next year.

Farm financial statistics underscore the importance of government support in maintaining the farm sector through a period of unfair competition, high interest rates and drought. Without government backing, Realized Net Farm Income would have been negative in every year since 1984.

REALIZED NET FARM INCOME
1980-1991



In 1989, Saskatchewan farmers carried a debt load of approximately $5.1 billion. The squeeze on farm income has made it increasingly difficult for farmers to make debt payments and has imposed a serious financial and emotional burden on many farm families.

Economic and financial hardship in rural Saskatchewan has affected all communities, both large and small. All of Saskatchewan has a stake in resolving the issues of low farm income, high farm debt and unfair agricultural trade subsidies. The Government of Saskatchewan will continue working with farmers, rural municipalities, the federal government and lending institutions to ensure the continued viability of this productive and crucial sector of Saskatchewan's economy.

Economic Diversification

A more diversified economy provides a broader and more resilient economic base, resulting in increased stability in incomes, employment and output in the provincial economy. In turn, a diversified economy also generates a more balanced government revenue base to pay for priority programs in health care and education.

Investing in manufacturing and processing activities increases the value added from our primary industries - agriculture, mining and forestry. This creates economic activity and jobs in Saskatchewan.

To further strengthen and build Saskatchewan communities, the Government has recently introduced Community Development Bonds. These Bonds provide the opportunity for Saskatchewan people to invest in the future of their own communities.

The Government of Saskatchewan is committed to providing an economic climate conducive to business development and investment, promoting the diversification of the Province's economy and building on Saskatchewan's strengths. Freer trade is important for the future of Saskatchewan's economy and the Government will continue to press for the dismantling of trade barriers.

CONCLUSION

The Province's economy faces a difficult present. Saskatchewan has an abundant natural resource heritage in its oil, natural gas, potash, uranium, coal, forestry and agriculture upon which to build.

In order to realize its vast economic potential, Saskatchewan must squarely face the harsh realities of the world economy. Hard choices will have to be made. But the hard-working people of Saskatchewan, in partnership with their Government, can meet the challenges and new realities they face today to develop a diversified, resilient and vibrant economy to secure Saskatchewan's future.